

Message Text

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C O N F I D E N T I A L ROME 6698

E.O. 11652: GDS

TAGS: ECON, ETRD, IT

SUBJECT: COMMODITY SUPPLY PROBLEMS

REF: STATE 069651

1. BEGIN SUMMARY: GOI MINISTRY OF FOREIGN AFFAIRS HAD DONE AN INFORMAL STUDY ON COMMODITY SUPPLY PROBLEMS. FIVE COMMODITIES ARE CONSIDERED TO BE MOST CRITICAL: COPPER, COAL, IRON, URANIUM AND MEAT. STUDY CONCLUDES THAT ONLY THROUGH EUROPEAN AND INTERANTIONAL COOPERATION CAN ITALY MEET THE THREAT OF CONCERTED PRODUCER COUNTRY ACTIONS. END SUMMARY.

2. AFTER INQUIRING WITH SEVERAL FOREIGN MINISTRY (MFA) CONTACTS WE HAVE LEARNED THAT MFA ECONOMIC DIRECTORATE'S RESEARCH OFFICE HAS PREPARED AN INTERNAL WORKING PAPER ON COMMODITY SUPPLY PROBLEMS. PAPER WAS DONE IN DECEMBER 1973 ON INITIATIVE OF RESEARCH OFFICE IN SHADOW OF OIL CRISIS. IT WAS SHOWN TO DIRECTOR GENERAL GUAZZARONI, BUT NOTHING CONFIDENTIAL

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FURTHER WAS DONE WITH IT ONCE IMMEDIATE FEAR OF PROLIFERATION

OF PRODUCER COUNTRY CARTEL-LIKE ACTIONS HAD SUBSIDED. MINISTRY APOLOGETICALLY DECLINED TO PASS US COPY OF THE PAPER ON GROUNDS THAT IT IS NOT RPT NOT GOI POLICY AND HAS NOT BEEN FORMALLY CLEARED BY GUAZZARONI. WE WERE ABLE TO READ IT, HOWEVER, AND FOLLOWING IS SUMMARY OF ITS ESSENTIAL POINTS.

3. STUDY, ENTITLED "RAW MATERIALS BOOM - POLITICAL AND ECONOMIC IMPLICATIONS", IS SOME 18 PAGES FOLLOWED BY 22 PAGES OF TABULAR DATA. INITIAL THREE SECTIONS ARE PURELY DESCRIPTIVE IN NATURE -- BRIEF DOCUMENTATION OF RECENT RAW MATERIAL PRICE INCREASES; DISCUSSION OF SHORT TERM AND LONG TERM FACTORS INVOLVED; AND DISCUSSION OF PROBLEM OF CHRONIC SCARCITY OVER LONG RUN.

4. BULK OF PAPER FOCUSES ON FIVE COMMODITIES FOR WHICH ITALY IS HIGHLY IMPORT-DEPENDENT AND WHICH SEEM MOST SUCCEPTIBLE TO CARTEL-LIKE ACTION: COPPER, COAL, IRON, URANIUM AND MEAT. FOR COPPER, STUDY NOTES THAT 40 PERCENT WORLD PRODUCTION CONCENTRATED IN CHILE, PERU, ZAIRE AND ZAMBIA, WITH EUROPE PRODUCING ONLY 13 PERCENT ITS OWN REQUIREMENTS AND ITALY 70 PERCENT DEPENDENT ON IMPORTS. REPORT ATTRIBUTES COAL'S INCREASED IMPORTANCE TO RECENT STEEP INCREASE IN CRUDE OIL PRICES; NOTES THAT WHEREAS EUROPE IS REASONABLY WILL-OFF, IMPORTING ONLY 16 PERCENT ITS NEEDS, ITALY IS 98 PERCENT DEPENDENT ON IMPORTS, ESPECIALLY FROM EASTERN EUROPE.

5. IN CASE OF IRON, STUDY NOTES THAT US AND USSR ARE IN FAVORABLE SUPPLY POSITION, WHILE EUROPE IMPORTS 60 PERCENT ITS NEEDS AND ITALY 92 PERCENT. SOURCES OF SUPPLY ARE RELATIVELY DIVERSIFIED, ALTHOUGH A CERTAIN CONCENTRATION IS TO BE FOUND IN AFRICA AND LATIN AMERICA. FOR URANIUM, CONCENTRATION OF PROVEN RESERVES GIVES RISE TO SOME CONCERN -- 58 PERCENT ON AMERICAN CONTINENT, 28 PERCENT IN AFRICA; DIFFICULTY OF QUANTIFYING FUTURE DEMAND IS ALSO NOTED. THE LAST COMMODITY, MEAT, CONSTITUTES A PARTICULAR PROBLEM FOR ITALY, WHICH IS PRESENTLY AND WILL FOR THE IMMEDIATE FUTURE CONTINUE TO BE HIGHLY DEPENDENT ON IMPORTS FROM ITS EC PARTNERS, EASTERN EUROPE AND LATIN AMERICA (MEAT ACCOUNTED FOR ABOUT 23 PERCENT OF 1973 TRADE DEFICIT OF \$5.2 BILLION).

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6. CONCLUSION -- WHO GAINS AND WHO LOSES: STUDY CONCLUDES THAT COMMODITY BOOM WILL HAVE PROFOUND EFFECT UPON DEVELOPED COUNTRY-LDC AS WELL AS EAST-WEST RELATIONSHIPS. COUNTRIES FAVORABLY ENDOWED WITH RESOURCES SUCH AS US, CANADA, AUSTRALIA, SOUTH AFRICA SEEN TO BENEFIT; ALSO MNC'S WITH ACCESS TO THE RESOURCES; THE RELATIVELY AUTARCHIC SOCIALIST BLOC ECONOMIES THOUGHT TO BE SOMEWHAT INSULATED FROM ANY EFFECTS. TWO

IMPORTANT CONSEQUENCES OF COMMODITY BOOM SINGLED OUT ARE
A) INCREASED LDC SOLIDARITY; B) GROWING TRANSIDEOLOGICAL
ECONOMIC COOPERATION (E.G., US AND USSR IN ENERGY). IN
CONTEXT OF BLOCS, EUROPE IS SEEN TO BE THE LOSER --
WEAKENED BY VIRTUE OF ITS OVERWHELMING DEPENDENCE UPON
RESOURCES LARGELY UNDER CONTROL OF DEVELOPING COUNTRIES OR
FOREIGN BASED MNC'S. THUS, THE NEED FOR EUROPEAN SOLIDARITY,
INVOLVING COOPERATION WITH EASTERN COUNTRIES AND DEVELOPING
WORLD, AND IN PARTICULAR MEDITERRANEAN AREA. THIS IMPLIES
GIVING LDC'S A GREATER SHARE OF THE PIE, ALTHOUGH THEY SHOULD
REALIZE THAT OVER-GREEDINESS ON THEIR PART RISKS BOOMERANGING
INTO GENERALIZED ECONOMIC SLOWDOWN. STUDY FINALLY UNDERLINES
CONVERGING INTERESTS OF INDUSTRIALIZED AND RAW MATERIAL
PRODUCING COUNTRIES, AND CITES SECRETARY KISSINGER'S CALL
FOR WASHINGTON ENERGY CONFERENCE AS A VALID EXAMPLE IN
ENERGY SECTOR.

7. PRODUCTION, CONSUMPTION, IMPORT DEPENDENCE AND IMPORT
SOURCES DATA RELATING TO MFA STUDY FOLLOWING BY AIRGRAM.

8. COMMENT: ACCESS TO RAW MATERIALS IS A MATTER OF CRUCIAL
IMPORTANCE TO ITALY WHOSE ECONOMY IS AS MUCH OR POSSIBLY MORE
DEPENDENT ON FOREIGN INPUT THAN THAT OF ANY OF ITS EC PARTNERS.
ITALIANS SEE THEMSELVES CAUGHT BETWEEN THE SUPER POWERS WHICH
EITHER POSSESS OR HAVE FAVORABLE ACCESS TO RESOURCES ON ONE
HAND AND THE INCREASINGLY ASSERTIVE RAW MATERIAL PRODUCING
COUNTRIES ON THE OTHER. FROM ITALIAN STANDPOINT, EUROPEAN AND
INTERNATIONAL COOPERATION IS THE ONLY VIABLE PATH. THE LATTER
IMPLIES, OF COURSE, COOPERATION WITH THE OTHER INDUSTRIAL
CONSUMERS AS WELL AS BETWEEN THE INDUSTRIAL AND RAW MATERIAL
PRODUCING COUNTRIES. VOLPE

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